

INTELLECTUAL PROPERTY—LANHAM ACT—CULPABLE CONDUCT OTHER THAN WILLFUL INFRINGEMENT OF A MARK IS SUFFICIENT TO CONSTITUTE AN EXCEPTIONAL CASE UNDER 15 U.S.C. § 1117(a) FOR AN AWARD OF ATTORNEY'S FEES—*SecuraComm Consulting, Inc. v. Securacom Inc.*, 224 F.3d 273 (3d Cir. 2000).

In 1980, Ronald Libengood founded SecuraComm Associates, a security systems consulting firm located in Pennsylvania. *SecuraComm Consulting, Inc. v. Securacom Inc.*, 224 F.3d 273, 274-75 (3d Cir. 2000). Libengood incorporated his firm in 1992, renaming it SecuraComm Consulting, Inc. (SecuraComm Pennsylvania). *Id.* at 275. In 1993, Libengood applied for federal registration the service mark "Securacomm" for security consulting. The mark was registered in 1997.

Libengood became aware of a New Jersey firm in the nuclear security field called Burns & Roe Securacom in 1987. Though the names were similar, Libengood took no action because of the differing clientele of the firms and the addition of the words "Burns & Roe" to the firm name was not likely to cause confusion.

In 1992, however, the Burns & Roe Securacom firm adopted the name Securacom Incorporated (Securacom New Jersey) and expanded its business activities to include a wider range of security services. When Libengood learned of Securacom New Jersey's new name and expanded business in early 1993, he immediately sent them a cease-and-desist letter. For the next two and one-half years, Libengood attempted to resolve the conflict with Securacom New Jersey. Libengood ultimately offered to sell the SecuraComm Pennsylvania mark to Securacom New Jersey for \$275,000. After receiving no response to his offer, Libengood threatened to file suit against Securacomm New Jersey. Securacomm New Jersey's chairman of the board, Wirt D. Walker, III, subsequently threatened Libengood with financial ruin if he filed suit.

In the fall of 1995, Libengood filed suit under the Lanham Act in the United States District Court for the District of New Jersey. *Id.* at 275-76. Securacom New Jersey answered with counterclaims identical to those pled by SecuraComm Pennsylvania, as well as a libel claim. *Id.* at 276. Shortly thereafter, Securacom New Jersey

also filed suit against Libengood and his attorney in New Jersey State Superior Court alleging various business-related torts and statutory violations. *Id.* Due to ethical obligations, Libengood's attorney was forced to withdraw as counsel in the Lanham Act suit because he was named in the subsequent suit with Libengood. *Id.* Upon consolidation of the federal and state suits, the district court dismissed Securacom New Jersey's state suit as meritless. *Id.*

In addition to these actions, Securacom New Jersey petitioned the Patent and Trademark Office for the cancellation of Securacomm Pennsylvania's service mark, and filed suit in the District of Columbia Superior Court claiming service mark infringement by SecuraComm Pennsylvania. *Id.* Upon removal of that case to the United States District Court for the District of Columbia, the district court in New Jersey enjoined pursuit of the suit by Securacomm New Jersey in the District of Columbia pending the results of the original case. *Id.*

In the fall of 1997, a bench trial in the District Court for the District of New Jersey found that Libengood had proved conclusive service mark ownership and that Securacom New Jersey had willfully infringed on that mark. *Id.* The district court issued an injunction preventing Securacom New Jersey from using "Securacom" in the United States and Puerto Rico. *Id.* at 276-77. The court awarded relief to SecuraComm Pennsylvania in the form of ten percent of Securacom New Jersey's profits. *Id.* at 277. In addition, the court found that the egregious circumstances of this case warranted an award of treble damages and attorney's fees. *Id.*

On appeal, the Third Circuit vacated the award of Securacomm New Jersey's profits, as the court found that the record was inadequate to permit an inference of willful infringement. *Id.* Because the finding of willful infringement was the primary factor in awarding attorney's fees, the appellate court remanded for a determination of whether any other exceptional circumstances justified such relief. *Id.* Prior to the remand, Securacom New Jersey moved to have the district court judge recuse himself. *Id.*

On remand, the district court first denied the recusal motion. *Id.* In addition, the District Court found exceptional circumstances and awarded attorney's fees in the amount of \$233,600.26 pursuant to § 35 of the Lanham Act, 15 U.S.C. § 1117(a). *Id.* The court held that Securacomm New Jersey's bad faith negotiations and use of oppressive litigation tactics satisfied the exceptional case requirement of the Lanham Act. *Id.*

Securacom New Jersey again appealed to the Third Circuit for

the denial of their recusal motion and the award of attorney's fees. *Id.* The Third Circuit affirmed the District Court for the District of New Jersey. *Id.* at 283.

Judge Sloviter, writing for a unanimous appeals panel, first addressed the recusal motion. *Id.* at 278. The court observed that under the statutory standard, recusal is only appropriate when a reasonable person could question a judge's impartiality. *Id.* Further, the judge maintained that the justification for recusal rarely originates in the judicial proceedings, but rather is usually found in some extra-judicial source. *Id.* Continuing, Judge Sloviter observed that in the instant case, all the bases for recusal proffered by Securacom New Jersey were to be found in the judicial proceedings before the district court. *Id.* After a thorough review of the court record, the panel found that recusal was not warranted and affirmed the district court's denial of the motion. *Id.*

The court, turning to the award of attorney's fees, first observed that the Lanham Act permits an award of reasonable attorney fees to the prevailing party only in cases of exceptional circumstances. *Id.* at 279. Judge Sloviter maintained that in trademark infringement cases, contrary to Securacom New Jersey's contention, exceptional circumstances can be found even if a defendant is not found to have willfully infringed a plaintiff's mark. *Id.* The judge noted that the purpose for the earlier remand, after the appellate court's finding that willful infringement was lacking, was to determine whether attorney's fees were warranted by other circumstances. *Id.* The court next opined that the legislative history of the Lanham Act and judicial precedent do not limit exceptional circumstances to instances of willful infringement, but rather include all culpable conduct by a losing party during the litigation, including acts of bad faith, malice, or fraud. *Id.* at 279-80.

Continuing, Judge Sloviter pointed out that an award of attorney's fees is available to both plaintiffs and defendants in trademark infringement cases, and not just against the party that willfully infringed. *Id.* at 280. The judge explained that if a defendant were to prevail at trial, the plaintiff's conduct during litigation could provide justification for a finding of exceptional circumstances and a subsequent award of attorney's fees. *Id.*

The court then noted that the Lanham Act's legislative history required an examination of equitable considerations in each case when assessing an award of attorney's fees. *Id.* at 280-81. Although the legislative history detailed that such an award was deemed necessary to make a trademark holder's remedy complete, Judge

Sloviter explained that limiting the basis for attorney's fees to a defendant's actions only during infringement would contravene the equitable requirement of the statute to assess the circumstances as a whole. *Id.* at 281. The judge maintained that willful infringement by a defendant is but one factor to consider in determining whether a finding of exceptional circumstances is warranted, and is not exclusive of all others. *Id.*

Judge Sloviter next observed that the Patent Act contains a fee provision identical to that in the Lanham Act, and that Congress referred to the patent statute when adding the fee provision to the Lanham Act. *Id.* The court maintained that the Patent Act does not require willful infringement for an award of attorney's fees, and moreover, under the Act, the use of vexatious litigation tactics has been found to justify an award of attorney's fees. *Id.* (citations omitted). Accordingly, the court held that "culpable conduct other than willful infringement" can create an exceptional case for purposes of the fee provision of the Lanham Act. *Id.* at 282.

Finally, Judge Sloviter determined that the District Court for the District of New Jersey had not abused its discretion in awarding attorney's fees under the Lanham Act even though the district court had denied such an award on SecuraComm Pennsylvania motion under Federal Rule of Civil Procedure 11. *Id.* at 282. The court maintained that the failure to pursue other available statutory methods of obtaining attorney's fees is not a bar to a finding of exceptional circumstances and an award of attorney's fees under the Lanham Act. *Id.* Further, Judge Sloviter asserted that the grant of attorney's fees under the Lanham Act was based on the culpable conduct that Securacom New Jersey displayed throughout the entire case, not merely its conduct during the discovery process. *Id.* As a result, the judge found no inconsistency on the part of the district court in the award of attorney's fees under the Lanham Act but not under Rule 11. *Id.* The court concluded that the award of attorney's fees was warranted based on Securacom New Jersey's attempt to financially cripple its opponent through the use of oppressive litigation tactics. *Id.* at 283.

In affirming the district court, the Third Circuit has sent a clear message to litigants engaged in protracted litigation under the Lanham Act. By dispensing with what appears to be delaying tactics in a long and aggressive case, the court has indicated that recourse to vexatious conduct may not only be tactically unsuccessful, but may also subject litigants to financial penalties. Moreover, by announcing the broad standard of "culpable conduct

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other than willful infringement” as grounds for the finding of exceptional circumstances, the court gives notice to parties that behavior not related to the use of the mark at issue is subject to scrutiny for purposes of the fee provision. Finally, in holding that vexatious litigation tactics alone may constitute an such “culpable conduct” sufficient to justify an award of fees under the Act, the court has clarified the circumstances under which a mark owner may be subject to the fee provision. This decision will hopefully result in a greater degree of civility in such litigation, and serve as a deterrent to unnecessary and wasteful delaying tactics by both owners of marks and alleged infringers.

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